

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, EEC, DA, PFOR

SUBJECT: EC COMMISSION RECOMMENDATION OF JOINT
MEASURES TO STIMULATE THE ECONOMY

REF: (A) EC BRUSSELS 6770; (B) COPENHAGEN 2046

1. SUMMARY. THE EC COMMISSION'S RECOMMENDATION FOR
ECONOMIC STIMULUS MAY GIVE THE DANISH GOVERNMENT
MORAL SUPPORT FOR EXPANSIONARY MEASURES ALREADY
CONTEMPLATED BUT WILL HAVE LITTLE EFFECT ON THEIR
CONTENT. THE SCOPE OF THESE MEASURES IS IN ANY
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EVENT LIMITED BY DOMESTIC FISCAL, MONETARY, AND

POLITICAL CONSIDERATIONS. END SUMMARY.

2. THE EC COMMISSION'S RECOMMENDATION (REF A) THAT MOST MEMBER STATES TAKE ADDITIONAL STIMULATIVE MEASURES WILL GIVE THE LABOR-ORIENTED DANISH GOVERNMENT MORAL SUPPORT FOR EXPANSIONARY UNEMPLOYMENT REMEDIES -- ANNOUNCED BUT NOT YET REVEALED -- THAT IT INTENDS TO SUBMIT TO THE FOLKETING NEXT FALL. THE EC RECOMMENDATION, HOWEVER, IS UNLIKELY TO SOFTEN THE OPPOSITION PARTIES' HOSTILITY TO MEASURES JEOPARDIZING HARD-WON INFLATION AND BALANCE OF PAYMENTS GAINS. ON THE OTHER HAND, THE RESOLUTION MAY STRENGTHEN THE GOVERNMENT'S RESOLVE TO RESIST ANY OPPOSITION PROPOSALS THAT WOULD SACRIFICE EMPLOYMENT TO A BETTER EXTERNAL BALANCE.

3. IN ANY EVENT THE GOVERNMENT'S ABILITY TO DEVISE EXPANSIONARY FISCAL AND MONETARY MEASURES IS LIMITED BY FACTORS OTHER THAN POLITICAL. EXTENSIVE TAX CUTTING, FOR EXAMPLE, IS UNLIKELY. AN EARLIER REDUCTION IN INCOME TAXES, EFFECTIVE JANUARY 1, 1975, HAS FAILED TO PRODUCE AN INCREASE IN CONSUMER DEMAND. FURTHERMORE, BECAUSE THE TAX CUT WAS NOT ACCCOMPANIED BY COMMENSURATE CURTAILMENT OF PUBLIC EXPENDITURES, LIQUIDITY HAS GROWN TO THE POINT THAT THE GOVERNMENT HAS INSTITUTED BOND SALES TO AVOID CAPITAL OUTFLOW AND BALANCE OF PAYMENTS PRESSURES. TAX CUTS FOR INVESTORS REMAIN A POSSIBILITY, BUT THEIR IMPACT WOULD BE BOTH SLOW AND LIMITED. AS FOR PUBLIC WORK PROGRAMS, THE GOVERNMENT HAS ALREADY INCREASED IMPLEMENTATION OF THOSE READILY EXPANDABLE. OTHER PROGRAMS WOULD REQUIRE CONSIDERABLE TIME BEFORE HAVING MORE THAN LIMITED IMPACT.

5. GOVERNMENT POLICY MAKERS ARE FURTHER CONSTRAINED BY THE NECESSITY TO AVOID AN EXPANSION OF DOMESTIC DEMAND WHICH MIGHT JEOPARDIZE DENMARK'S EXPORT CAPABILITY -- BOTH TO AVOID DETERIORATION IN THE PRESENTLY DIFFICULT INTERNATIONAL SITUATION AND TO TAKE ADVANTAGE OF AN INTERNATIONAL UPTURN

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WHEN IT OCCURS.

6. WHILE THE DANES ARE NOT LIKELY TO BE MUCH INFLUENCED BY THE COMMISSION'S RECOMMENDATION, THEY WILL CHEER ITS APPLICATION BY OTHER MEMBER STATES IN HOPES THAT EXPANSION THERE WILL INCREASE DEMAND FOR DANISH EXPORTS.

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